

# DIRECTIVE

## WELFARE-TO-WORK

Number: WD01-5

Date: June 14, 2001  
69:75:va:4592

TO: WELFARE-TO-WORK COMMUNITY

SUBJECT: ALLOWABLE COSTS

### EXECUTIVE SUMMARY:

#### Purpose:

This directive provides State and federal guidance regarding the allowability of costs for the Welfare-to-Work (WtW) Grant program.

#### Scope:

This directive requires that entities receiving WtW grant funds shall comply with federal and State cost guidelines. These entities include Local Workforce Investment Areas (Local Areas) that receive formula funds and their subrecipients, and 15 Percent subgrantees and their subgrantees.

#### Effective Date:

This directive is effective upon release.

### REFERENCES:

- United States Code, Title 42, Section 603(a)(5)(A)(vii)(I)
- Title 20 Code of Federal Regulations (CFR) Sections 645.230(c) and 645.235(b)
- Title 29 CFR Part 95.27
- Title 29 CFR Part 97.22
- Office of Management and Budget (OMB) Circulars A-21, A-87, and A-122
- Title 48 CFR Part 31
- Training and Employment Guidance Letter (TEGL) 20-00, May 2, 2001
- Department of Labor (DOL), WtW Financial Management Technical Assistance Guide (1999)
- Welfare and Institutions Code Section 11322.6(n)

## STATE-IMPOSED REQUIREMENTS:

This directive contains State-imposed requirements. These requirements are indicated by ***bold, italic*** type.

## FILING INSTRUCTIONS:

This directive supersedes WtW Directive WD99-8 and finalizes Draft Directive WDD-17 issued for comment on April 26, 2001. Retain this directive until further notice.

## BACKGROUND:

The WtW Grants Final Rule, Title 20 CFR Section 645.230, provides guidance regarding cost principles and allowable costs and refers subrecipients and subgrantees to additional regulatory documents. The OMB circulars provide guidance according to the type of organization, and the guidance may vary from one circular to another. Governmental entities are bound by OMB Circular A-87, nonprofit organizations by OMB Circular A-122, educational institutions by OMB Circular A-21, and for-profit organizations by Title 48 CFR Part 31. In the Final Rule, DOL added a prohibition against expenditures for business start-up and affirmed the prohibition against construction or purchase of facilities.

## POLICY AND PROCEDURES:

The OMB circulars list selected items of cost identifying allowable and unallowable costs. Certain items are allowable only if approval is granted prior to the purchase. For governmental entities, 3 items require prior approval; for nonprofit organizations, 12 items require prior approval, including equipment with a purchase price above the capitalization level established by the organization for the financial statement purposes or \$5,000 and above. Purchases of these items without prior written approval constitute unallowable WtW expenditures.

The WtW regulations Section 645.230 assigns the authority for granting prior approval for those selected items of cost to the Governor. Entities should refer to the appropriate OMB circular to identify selected items of cost of interest to them. ***Please submit your request for prior approval in writing to:***

WtW Program Manager  
Program Development and Management Division, MIC 50  
Employment Development Department  
P.O. Box 826880  
Sacramento, CA 94280-0001

The WtW regulation Section 645.220 lists the allowable activities for the program. This list provides a number of activities without detail. The State requires that WtW entities use the following definitions for the program:

***Community Service means positions with public or private nonprofit employers. Participants in community service positions funded through the WtW Grant program are considered temporary employees, will apply for the work and be subject to hiring and termination by the employer, and will be expected to perform work for the benefit of the employer. The activity must comply with the anti-displacement provisions contained in State law.***

***Job Placement means subsidized or unsubsidized employment with a public or private employer, through vouchers or contracts with public or private providers. Job placement includes, but is not limited to assessing skills, identifying ranges of occupations available in the local labor market, and developing jobs.***

Job search and job readiness assistance means providing the recipient with training to learn job seeking and interviewing skills, to understand employer expectations, and learn skills designed to enhance an individual's capacity to move toward self-sufficiency (Welfare and Institutions Code Section 11322.6(n)).

***On-the-Job Training is employment by an employer in the public or private sector. A portion of the wages paid by the employer is reimbursed to cover the employer's expense in training the individual.***

***Other supportive services mean individual and family counseling, materials for individuals with disabilities, job coaches, dependent care, meals, financial counseling, and other reasonable expenses required for job readiness or employment activities.***

***Work Experience can be with public or private employers. Participants in work experience positions funded through the WtW Grant program are considered temporary employees, will apply for the work and be subject to hiring and termination by the employer, and will be expected to perform work for the benefit of the employer. The activity must comply with the anti-displacement provisions contained in State law.***

For ease of operation, the final WtW regulations Section 645.235(b) define administrative costs in language similar to the Workforce Investment Act (WIA) regulations. TEGL 20-00, Guidance and Instructions on the Effective Date for Applying the Welfare-to-Work Revised Definition of Administrative Costs and How to Report Expenditure Adjustments, indicates that the revised definition is effective July 2, 2001. This document is available on the Internet at:

<http://wtw.doleta.gov/documents/tegltein/20-00.htm>

The WtW regulation Section 645.230(e) prohibits the expenditure of WtW federal funds for construction or the purchase of facilities. Part (f) of this section states that WtW federal funds may not be used to cover the costs of business start-up and/or capital ventures.

Federal policies require cost comparison between the leasing and the purchase of equipment. When programs or contracts are short-term, this suggests that leasing is the preferable option for securing equipment. Purchase may only be considered when the cost of leasing is higher for the duration of the contract or program. For example, a program will terminate in eighteen months. The cost of the equipment is \$10,000. The cost to lease the equipment is \$350 per month, equaling \$6,300 for the period which is less than the \$10,000 purchase price. This equipment should be leased. For the same program, the cost of another piece of equipment is \$1,500. The cost of leasing is \$99 per month, equaling \$1,782 for the eighteen month period which exceeds the \$1,500 purchase price. This equipment should be purchased.

**ACTION:**

Bring this directive to the attention of all affected staff, subrecipients, and subgrantees.

**INQUIRIES:**

Please direct inquiries about this directive to your assigned [Program Manager](#) at (916) 654-7799.

/S/ JIM CURTIS  
Chief